

## Message Text

CONFIDENTIAL

PAGE 01 STATE 084517  
ORIGIN TRSE-00

INFO OCT-01 AF-10 ISO-00 SP-02 ICA-11 AID-05 EB-08  
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04  
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FM SECSTATE WASHDC  
TO AMEMBASSY LUSAKA

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E.O. 11652: GDS

TAGS: EFIN, ZA

SUBJECT: IMF NEGOTIATIONS WITH ZAMBIA

REF: A. LUSAKA 764 B. LUSAKA 886

1. SUMMARY. ON MARCH 16, IMF STAFF BRIEFED US EXECUTIVE DIRECTOR AND STATE AND TREASURY STAFF ON THE OUTCOME OF NEGOTIATIONS WITH THE GOVERNMENT OF ZAMBIA (GOZ). FROM THAT MEETING AND CONVERSATIONS WITH THE STAFF SUBSEQUENT TO ZAMBIAN CABINET APPROVAL OF THE STABILIZATION AGREEMENT AND STANDBY, WE HAVE LEARNED THAT THE TWO-YEAR STANDBY AGREEMENT WILL PROVIDE ZAMBIA WITH FINANCIAL ASSISTANCE IN CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 084517

EXCESS OF 300 MILLION DOLLARS. IMF STAFF ESTIMATES ZAMBIA'S ARREARAGES AT THE END OF MARCH AT NEARLY 600 MILLION DOLLARS. ZAMBIA IS NOT, REPEAT NOT EXPECTED TO REQUEST A RESCHEDULING OF OFFICIAL OR PRIVATE DEBT. HOWEVER, ZAMBIA IS EXPECTED TO ASK THE IBRD TO CONVENE THE CONSULTATIVE GROUP AT AN EARLY DATE TO SEEK ADDITIONAL ECONOMIC ASSISTANCE. ZAMBIA IS NOT EXPECTED TO REDUCE THE VOLUME

OF ITS COPPER EXPORTS IN 1978. END SUMMARY.

2. IMF STAFF ON MARCH 16 BRIEFED U.S. EXECUTIVE DIRECTOR AND STATE AND TREASURY OFFICIALS ON THE OUTCOME OF NEGOTIATIONS WITH THE GOVERNMENT OF ZAMBIA. IMF SENIOR

MANAGEMENT HAS APPROVED THE AGREEMENT FOR SUBMISSION TO THE IMF EXECUTIVE BOARD. IMF STAFF DOCUMENTS ON THE STANDBY ARRANGEMENT ARE EXPECTED BY APRIL 10, AND THE BOARD WILL PROBABLY CONSIDER THE AGREEMENT IN EARLY MAY.

3. THE IMF INFORMS US THAT STANDBY FOR ZAMBIA WILL BE SDR 250 MILLION OR ABOUT 307.5 MILLION DOLLARS AT CURRENT RATE OF SDR 1 EQUALS 1.23 DOLLARS. COMPLETE DETAILS OF STANDBY ARRANGEMENT WILL BECOME AVAILABLE WITH PUBLICATION OF IMF STAFF DOCUMENTS. AMOUNT OF STANDBY IS BASED ON NEW IMF QUOTA FOR ZAMBIA OF SDR 141 MILLION WHICH WILL BECOME EFFECTIVE UPON APPROVAL OF SIXTH IMF QUOTA INCREASE EXPECTED WITHIN FEW WEEKS. IMF INTENDS TO WAIVE 100 PERCENT OF QUOTA UPPER LIMIT ON CREDIT TRANCHE DRAWINGS TO PERMIT ZAMBIA ADDITIONAL CREDIT TRANCHE ACCESS OF SDR 117.5 MILLION. TOTAL CREDIT TRANCHE ACCESS WILL BE SDR 258.5 MILLION, SINCE ZAMBIA ALREADY HAS OUTSTANDING DRAWINGS IN THE FIRST CREDIT TRANCHE OF SDR 8.5 MILLION. WE WOULD EXPECT DRAWINGS TO BE PHASED OVER THE TWO-YEAR PERIOD OF THE STANDBY.  
CONFIDENTIAL

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PAGE 03 STATE 084517

4. ON MARCH 16 THE IMF STAFF DISCUSSED MEASURES WHICH ADDRESS ARREARAGES AND THE COPPER MINING SECTOR, BUT DID NOT PROVIDE A THOROUGH REVIEW OF THE ENTIRE STANDBY.

5. ACCORDING TO THE IMF STAFF ARREARAGES BY THE END OF MARCH WILL BE ABOUT 600 MILLION DOLLARS AND ARE LIKELY TO CONTINUE TO ACCUMULATE UNTIL THE END OF JUNE. THE STANDBY AGREEMENT INCLUDES A SPECIFIC COMMITMENT TO REDUCE ARREARAGES, THOUGH THE SPECIFIC TARGET WAS NOT MENTIONED.

6. THE GOZ IS REPORTEDLY NOT GOING TO REQUEST RESCHEDULING OF OFFICIAL OR PRIVATE DEBTS. HOWEVER, THE EXPORT CREDIT AGENCIES OF SOME COUNTRIES HAVE HAD TO PAY CLAIMS FOR INSURED OBLIGATIONS AND THEREFORE HAVE BECOME RESIDUAL CREDITORS FOR SUCH OBLIGATIONS. THE GOZ IS PLANNING TO APPROACH THE EXPORT CREDIT AGENCIES TO DISCUSS PAYMENT OF SUCH OBLIGATIONS AND POSSIBLY TO DISCUSS ARREARAGES AS WELL. ANY LIGHT EMBASSY CAN SHED ON GOZ INTENTIONS WILL BE APPRECIATED. THE IMF STAFF UNDERSTANDS THAT THE BRITISH AND BELGIAN AGENCIES WOULD BE THE MAIN CLAIMANTS. (TO DATE, EX-IM HAS RECEIVED ONLY ONE CLAIM

FOR 109,000 DOLLARS, THOUGH ADDITIONAL CLAIMS COULD BE FILED IN THE COMING MONTHS.) IN THE PROCESS OF SCHEDULING PAYMENTS FOR THESE CLAIMS, THE GOZ MAY REQUEST REFUNDING, I.E., A NEW LOAN TO PAY THE CLAIMS, PRESUMABLY, AT A LONGER MATURITY.

7. THE IMF STAFF BELIEVES THAT THE GOZ PERMITTED EFFEC-

TIVE DEMAND TO EXPAND TOO RAPIDLY IN 1973-75, BUT THAT EVEN WITH FAULTLESS ECONOMIC MANAGEMENT, ZAMBIA WOULD HAVE SEVERE FINANCIAL PROBLEMS IN VIEW OF THE DEPRESSED COPPER MARKET. IN NOTING THAT ZAMBIA IS A HIGH COST COPPER PRODUCER THE IMF STAFF SAID THAT THE STAND-BY AGREEMENT WILL RESTRICT BANK LENDING TO THE MINING  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 084517

SECTOR, THUS REQUIRING THAT THE MINING COMPANIES NOT OPERATE AT A LOSS IN 1978. THE COMPANIES WILL HAVE TO EARN PROFITS DURING THE REMAINDER OF THE YEAR TO OVERCOME LOSSES ACCUMULATED DURING THE FIRST PART OF THE YEAR. THIS COULD ENTAIL SOME LAYOFFS, BUT NOT MAJOR LAYOFFS, IN RECOGNITION OF THE POLITICAL PROBLEMS FOR THE GOZ THAT MAJOR LAYOFFS WOULD GENERATE. THE MINING COMPANIES WOULD BE PERMITTED TO PURCHASE LOWER COST SUPPLIES FROM NEIGHBORING COUNTRIES, BUT NOT RHODESIA. THE IMF STAFF ASSUMES THAT ZAMBIAN COPPER PRODUCTION WILL NOT INCREASE IN 1978 AND THAT EXPORTS WILL NOT DECLINE.

IT IS ASSUMED WORLD COPPER PRICES WILL PROBABLY NOT MOVE UP BEYOND 60 CENTS PER POUND IN 1978.

8. WITH NO INCREASE IN EXPORT EARNINGS, ZAMBIA IS EXPECTED TO MEET 1978 BALANCE OF PAYMENTS OBJECTIVES THROUGH AN EIGHT PERCENT REDUCTION IN NOMINAL IMPORTS. THE IMF STAFF NOTED SYMPATHETICALLY THAT NOMINAL IMPORTS HAD BEEN REDUCED IN 1977 TO THE LOWEST LEVEL IN FOUR YEARS AND THAT, BY IMPLICATION, THE LEVEL OF ECONOMIC ACTIVITY WOULD CONTINUE TO FALL IN 1978. THE STANDBY AGREEMENT ALSO PROVIDES FOR SIMPLIFICATION OF THE IMPORT LICENSING PROCEDURE.

9. THE IMF STAFF INDICATED THAT ZAMBIA WOULD ASK THE IBRD TO CONVENE THE CONSULTATIVE GROUP SOON TO SEEK ADDITIONAL-- QUICKLY DISBURSABLE--ECONOMIC ASSISTANCE. IN REPLY TO QUESTION FROM THE IMF STAFF, STATE (SMITH) SAID ABOUT 4.5 MILLION DOLLARS REMAINED UNDISBURSED FROM THE FY 77 SSA PROGRAM AND OVER 15 MILLION DOLLARS IS EXPECTED TO BE DISBURSED IN 1978 FROM THE FY 78 PROGRAM. IN ADDITION 4.6 MILLION DOLLARS IS ALLOCATED FOR TITLE I PL 480, AND  
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PAGE 05 STATE 084517

WE ARE CONSIDERING AN ADDITIONAL 4.6 MILLION DOLLARS TO COME OUT OF A POSSIBLE TITLE I SUPPLEMENTAL APPROPRIATION REQUEST. WHILE FY 78 SSA DISBURSEMENT COULD BE ACCELERATED SOMEWHAT THE PROSPECTS FOR SUBSTANTIAL INCREASED ASSISTANCE IN FY 78 WERE NOT BRIGHT. THE GOZ PLANS TO REQUEST A SECOND CONSULTATIVE GROUP MEETING LATER TO CONSIDER FUTURE ASSISTANCE IN A LONGER TERM PERSPECTIVE.

10. COMPENSATORY FINANCING FACILITY. IN ADDITION TO SDR 250 MILLION CREDIT TRANCHE STAND-BY ZAMBIA MAY BE ABLE TO OBTAIN ASSISTANCE FROM THE COMPENSATORY FINANCING FACILITY (CFF). CFF DRAWINGS ARE LIMITED TO 75 PERCENT OF QUOTA. ZAMBIA HAS ALREADY DRAWN SDR 57 MILLION UNDER THE CFF -- THE MAXIMUM AVAILABLE ON THE BASIS OF ITS PRESENT QUOTA. AN ADDITIONAL AMOUNT OF SDR 48.75 MILLION WOULD BE AVAILABLE WHEN THE QUOTA INCREASE BECOMES EFFECTIVE.

11. IMF TRUST FUND. ZAMBIA HAS BEEN ADDED TO THE LIST OF DEVELOPING COUNTRIES ELIGIBLE TO RECEIVE LOANS FROM THE IMF TRUST FUND FOR THE PERIOD FROM JULY 1, 1978 TO JUNE 30, 1980. IN ORDER TO QUALIFY FOR THESE LOANS A COUNTRY MUST DEMONSTRATE A BALANCE OF PAYMENTS NEED AND BE MAKING A REASONABLE EFFORT TO STRENGTHEN ITS BALANCE OF PAYMENTS POSITION. THE POTENTIAL AMOUNT OF LOANS TO ZAMBIA WOULD DEPEND ON THE LEVEL OF PROFITS FROM IMF GOLD SALES ON BEHALF OF THE TRUST FUND AND THE SIZE OF ZAMBIA'S QUOTA IN RELATION TO TOTAL QUOTAS OF OTHER COUNTRIES RECEIVING TRUST FUND LOANS.

12. THE ABOVE INFORMATION IS FOR YOUR BACKGROUND USE. THERE SHOULD BE NO SUGGESTION TO ZAMBIANS OF ANY CONTACT BETWEEN IMF AND USG ON THIS ISSUE.

13. ACTION REQUESTED. IT HAS BEEN RUMORED HERE THAT THE ARREARS QUEUE HAS BEEN FROZEN AS A RESULT OF THE RECENT  
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PAGE 06 STATE 084517

DEVALUATION, PERHAPS PENDING A DECISION ON THE EFFECT OF THE DEVALUATION ON THESE DEBTS. WE WOULD APPRECIATE AN EARLY CLARIFICATION. COOPER

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## Message Attributes

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